

The Project Evaluation Report

This paper aims to orient the ICC members on the format and content of the ICC Project Evaluation Report (PER). The PER is the document that contains the evaluation of the ICC Secretariat on a proposed project. It is generally divided into fourteen sections:

A. Project's Sectoral Program Context.

This section presents a brief overview of sector targets, existing programs and sectoral gaps based on existing master plans/sectoral programs. It identifies how the project addresses the needs, priorities and objectives of the sector and reflects the linkage of the project with other projects in the sector as well as related projects in other sectors.

B. Project's Regional and Spatial Context.

This provides the linkages of the project to other projects within and across the region.

C. Project's Historical Background

This section provides a narrative on the development of the project. It also traces the source of backlogs in the processing of the project and reflects the difficulties in securing ICC requisites, if any.

D. Project Description

This section presents a brief description, configuration and scope of the project. It indicates if the project is multipurpose in nature, a phase of a bigger, multiphased project, or part of an integrated area development project. The section likewise provides a brief description of the components of the project (as applicable), the location and the areas of service/influence.

E. Objective

This portion states the problems that the project is designed to solve. The section may also state the extent to which the project intends to address identified targets/gaps both spatially and sectorally.

F. Project Cost and Financing

This section indicates the total cost and cost breakdown by activity and by project components including annual cash flows. It also provides the source of financing and the funding scheme.

G. Implementation Schedule

This portion presents the work program of the project, i.e., scheduled start and completion of project implementation.

H. Technical/Environmental Evaluation

This section provides the results of the technical analysis on the selection of alternatives (advantages/disadvantages) which have been identified to achieve the objectives of the project. It may also present the results of the review of the environmental impact of the proposed project design.

I. Financial Evaluation

Financial analysis is conducted for revenue generating projects of government agencies, government-owned and –controlled corporations (GOCCs), government financial institutions (GFIs) and local government units. The activity assesses the financial viability of a project and its ability to meet its debt-service obligations.

The section on financial analysis presents the valuation of financial benefits and costs of the project (using constant prices). The results of the financial analysis are presented as the financial net present value (NPV), financial internal rate of return (FIRR), weighted average cost of capital (WACC) and/or the benefit-cost ratio (BCR).

The Secretariat determines the financial viability of a project either from the “all capital” viewpoint and the “equity capital” viewpoint. The former looks at the discounted returns to all real investment flows for the project as a whole, irrespective of whether these come from equity or from loans. The latter looks at proponent’s (investor’s) equity contributions as the investment such that the loan proceeds are treated as inflows, while loan repayments are treated as outflows.

In both cases, the FIRR and the NPV are computed based on the validated submissions of the project proponents of the benefit and cost streams. A project is financially viable in the “all capital” approach if the resulting FIRR is greater than the WACC and the NPV is greater than zero using the WACC as the discount rate.

A project is financially viable under the “equity capital” approach when the resulting FIRR exceeds the cost of equity contribution of the proponent while NPV should be greater than zero using the cost of equity capital as discount rate.

The NPV is the difference between the present values of project benefits and project costs. The financial NPV is computed using the following formula:

$$NPV = \sum_{i=0}^n \frac{b_i - c_i}{(1+r)^i}$$

where b_i = benefits in period i
 c_i = costs in period i
 r = discount rate
 n = discounting period

The decision criterion is: accept a project with NPV greater than or equal to zero, and reject if otherwise.

The FIRR is defined as that discount rate which equates the present values of the project's benefits and costs so that the NPV is zero, and the BCR is one. The FIRR is computed using the following formula:

$$\text{FIRR} = \sum_{i=0}^n \frac{b_i - c_i}{(1+r)^i} = 0$$

The WACC is computed using the following formula:

$$\text{WACC} = P_e \times R_e + P_c \times R_c + P_l \times R_l$$

Where P_e = percentage of equity investment to total capital funds

P_c = percentage of corporate funds (i.e., internal cash generation for government corporations)

P_l = percentage of loaned funds

R_e = opportunity cost of capital of equity funds

R_c = opportunity cost of capital of corporate funds

R_l = effective cost of loaned funds

Sensitivity analyses are conducted to determine whether or not the project will remain feasible if changes in the assumptions used in the calculations/projections were to take place. Three sensitivity analysis scenarios are used in the financial evaluation of the project:

Case I: Increase in projected costs by 10% or 20%.

Case II. Decrease in revenues by 10% and 20%.

Case III: Combination of Cases I and II.

J. Economic Evaluation

The objective of economic evaluation is to ascertain the project's desirability in terms of its net contribution to the economic and social welfare of the country as a whole.

This presents the economic benefits and costs of the project which are usually presented as the economic NPV and the economic internal rate of return (EIRR).

The economic NPV and IRR are derived using the same formula for computing the financial NPV and IRR but using the stream of economic costs and benefits.

The same scenarios are utilized in conducting sensitivity analysis for the economic evaluation of a project.

K. Social Analysis

Social analysis is conducted to determine if a project is responsive to national objectives of poverty alleviation, employment generation and income redistribution. This section provides the social benefits, especially those which are not quantifiable, to be derived from the project. It may also include the socio-political impact of the project.

L. Implementing Capability of the Proponent

This cites the institutional and financial capability of the proponent to implement the project. It also presents the necessary linkages to effectively implement and operate the project/facility.

M. Issues

This section highlights the issues that may hamper the implementation of the project, e.g., inconsistencies with existing laws, policies, guidelines and procedures. It also presents a summary of substantive adverse findings on the overall evaluation of the project.

N. Recommendation

This presents the recommendation of the evaluator regarding the project including the conditionalities, if any.